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Office of Internal Audit

Department of Health

MORE Clinic

Audit Report

Office of Internal Audit



Department of Health

MORE Clinic

April 2004

Department of Health

MORE Clinic

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CHIEF AUDIT EXECUTIVE

Transmittal Letter

April 30, 2004

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Audit of the Metro Health Department MORE Clinic

Scope and Opinion

We have examined the operating records and procedures associated with the revenue administration at the Health Department's Methadone Opiate Rehabilitation and Education (MORE) Clinic. The operational and fiscal administration of activity was reviewed.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the administration and processing of the MORE Clinic revenue activity is weak. There were some specific problems noted that indicate the internal control structure could be more effective. Examples of the problems include the following.

- Monitoring of MORE Clinic revenue activity could be improved. There are inherent risks associated with this type of service-oriented (e.g., treatment and counseling), cash business. Essentially, there is no corresponding inventory to help ensure all money is collected since patient dosing levels vary according to the patient's treatment program. Therefore, intentional errors, such as underreporting revenue, can occur prior to the transaction entering the system without being detected. Due to this, strong compensating controls, such as monitoring and proper segregation of duties, need to be in place to help mitigate the inherent risks.
- The MORE Clinic computer system is not adequate. It is old and the integrity of data may not be reliable. The MORE Clinic is currently in the process of implementing a new computer software system that should address several of the problems noted.
- There is not adequate segregation of duties among personnel, especially in regards to receipt of payment, posting to accounts, and depositing of payments.
- There are some procedural issues that are impairing the internal control structure. This includes some activity that is not processed for billing, and the lack of functional operating policies and procedures for staff.

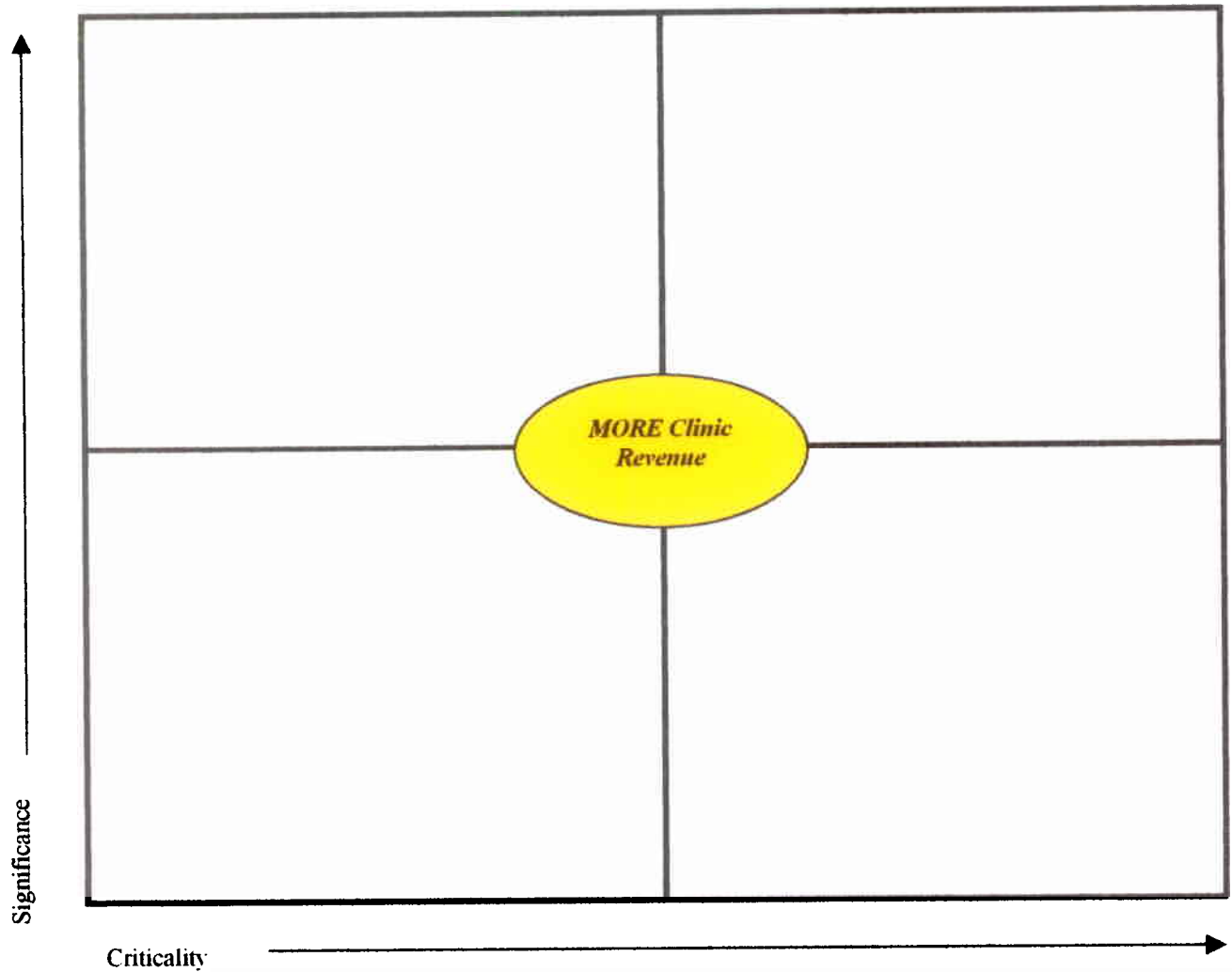
The MORE Clinic has implemented some compensating controls (e.g., cash verification by two individuals) to help mitigate risks associated with revenues. These efforts are commendable. However, the implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the MORE Clinic revenue activity. The Health Department is committed to addressing the issues noted in the audit and to operating in an effective, accountable manner. Management plans to request a follow-up review after actions have been implemented.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Health and Family Services
Director of the Metro Health Department

Internal Control Rating



<i>Legend</i>			
<u>Criteria Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Weak</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No. or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Introduction

The Methadone Opiate Rehabilitation and Education (MORE) Clinic, established in January 1989, is an outpatient program funded by a Federal Block Grant to the State of Kentucky and by patient fees. The program provides medically monitored drug treatment and related counseling services to those whom are physiologically dependent upon a narcotic drug such as heroin, morphine and OxyContin.

The program is currently funded to accept 200 patients. The Clinic offers 22 different counseling groups a week and encourages participation in programs such as Alcoholics Anonymous and Narcotics Anonymous.

The fiscal year 2004 budget for the Health Department is approximately \$21.8 million. This is comprised of Metro Government general fund, Federal and State funds, as well as Agency receipts. This includes \$856,100 for methadone treatment services, funded through a Federal grant award, the Metro Government general fund, and program generated revenue.

This audit was requested by the Metro Health Department.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not conducted any prior reviews of the MORE Clinic revenue.

III. Statement of Auditing Standards

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

An exit conference was held at the MORE Clinic on April 27, 2004. Attending were Dr. Adewale Troutman, Janice Cunningham and Ken Kring representing the Metro Health Department; Mike Norman and Shannon Curran representing Internal Audit. Final audit results were discussed.

The views of the Health Department officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Scope

The Health Department's Methadone Opiate Rehabilitation and Education (MORE) Clinic revenue procedures were reviewed through interviews with key personnel. The purpose of this review was to ensure that procedures are in place regarding the operational and fiscal administration of revenue and related activity. This included the processing, recording, and monitoring of revenues associated with program participant fees.

A sample of ten (approximately 5%) patient accounts was examined for the period July 1, 2003 through December 31, 2003. The review consisted of examining the sample of payment account summaries, daily reports, and monthly collections logs to ensure that activity was processed accurately and appropriately.

The following concerns were noted.

Observations

There were several problems noted with the management of the MORE Clinic revenue. As a result, the internal control structure is weakened and its effectiveness impaired. The observations are as follows:

- #1 Monitoring
- #2 Computer System
- #3 Segregation of Duties
- #4 Procedural Issues

#1 - Monitoring

Monitoring is one of the most significant internal controls for the MORE Clinic revenue activity. Internal revenue and activity reports are prepared. These reports are used to record the processing of patient treatment and fees. Ultimately, the reports provide information for monitoring purposes. The usefulness of this information may be limited by the following factors.

- The MORE Clinic functions on a cash basis. There are inherent risks associated with this type of treatment and counseling-oriented service (e.g., completeness of activity reported). Patient dosing levels vary according to the patient's treatment program. Therefore it is not possible to equate the amount of methadone dispensed with the revenue collected (e.g., 100 doses ≠ \$700). Essentially, there is no corresponding inventories or records of goods sold to support/reconcile revenue activity. Due to this, it is necessary that an appropriate level of compensating controls be in place to help ensure the activity is properly reported.
- The Metro Health Department's Business Office has very little monitoring oversight and understanding of MORE Clinic operations. While this may be somewhat understandable for patient confidentiality reasons, lack of oversight increases risk.

- Some issues were noted that indicate the MORE Clinic reconciliation procedures are not adequate.
 - In one of four daily deposit transactions reviewed, the amount deposited exceeded the amount recorded on the MORE computer system (\$52). While the documentation includes a notation of this fact, no explanation / reconciliation was performed.
 - One MORE Clinic monitoring report has not been updated to reflect current processing procedures. Specifically, the monthly collection log includes columns that are no longer used. This may be confusing for staff and could lead to inaccurate reporting of information.
- There is not an overall effective process to ensure receipts are accurately reflected on activity reports, or posted in a timely manner.
 - There is not adequate monitoring of the charges for the Metro Health Department Lab's drug screens. The MORE staff collect fees from the patients for these tests (e.g., drug panels, alcohol tests) and the Lab submits a monthly memorandum request to the Metro Health Department's Business Office to transfer the receipts to the lab account. The MORE Clinic does not monitor the lab service account to ensure the fund transfer accurately reflects drug screens performed.
 - There were a couple of cases noted during the examination of activity in which MORE Clinic bank deposits were not posted to the Metro financial statements in a timely manner. As of the date of review, approximately six weeks had passed since the receipts were deposited in the bank account, but no posting had been made to the financial system.
- Based on the MORE Clinic procedures, it's not possible to perform a reliable analysis of revenue activity. This is mainly due to the various charges and payment methods. For example, patients pay daily, weekly, monthly, etc. Some patients pay out-of-state rates and some are at various stages in the program to be allowed take home privileges. A combination of these factors, along with the current computer system's limitations to provide information, make useful analysis problematic.

As previously noted, several factors hinder the ability to perform useful analysis. The MORE Clinic internal revenue reports (monthly collection logs) were used to present calendar year 2003 revenues. This information is presented in Appendix A. Based on a simple analysis (approximate number of authorized monthly participants multiplied by (daily fee multiplied by approximate number of days in month)), anticipated revenue from fees can be estimated as follows.

<u>Period</u>	<u>Anticipated Monthly Basic Revenue</u>					
January through June 2003	200	x	(\$6	x	30)	= \$36,000
July through December 2003	200	x	(\$7	x	30)	= \$42,000

Comparing revenue receipts to the anticipated levels, the actual activity appears to be in line with expectations for most months.

#2 - Computer System

The current MORE Clinic computer system used to record activity is old and has limited capabilities. The completeness and accuracy of the activity processed is essential for accountability, as well as, monitoring of overall revenue activity. The following issues limit the usefulness of the computer system and weaken the reliability of its information.

- In some cases, the computer system does not process the appropriate fees. As of this review, the Fee Detoxification Policy charges had not been updated to assess the fee increase implemented in July 2003.
- The system may not provide adequate security to ensure information is maintained properly. For instance, access to the computer system is password-protected. However, passwords are shared among personnel. This could allow unauthorized access to confidential or Health Insurance Portability and Accountability Act (HIPAA) protected information.
- MORE staff stated that the computer system does not perform many needed functions or provide useful report information. This may be due to the fact that the system is antiquated or does not receive sufficient support. Also, some of the problems could be associated with a lack of adequate training for staff. Examples include the following.
 - Amounts charged and patient balances are difficult to determine and often not accurately calculated.
 - Activity reports subtotal patient amounts paid/due by counselor. This format is not useful for current operations.
 - The Close Day Report includes a category that is not used (e.g., “Insurance” column), but was noted to contain activity. MORE staff were not aware of any type of information that should be reflected in this category.

The MORE Clinic is currently in the process of implementing new computer software that should address several of the problems noted.

#3 - Segregation of Duties

There were some segregation of duties concerns associated with the MORE Clinic staff. The following issues, along with a weak monitoring system, increase risks associated with revenue activity.

- A single individual could post charges/fees, receive payment, post the activity, and prepare the funds for deposit. The MORE Clinic has implemented some compensating controls, such as requiring that two staff members be present during the counting of money and actual handling of deposits, but there are still risks associated with this type of revenue processing (e.g., payment could be posted to the patient account and diverted for personal use without being detected).
- Various fees (e.g. take home containers, locks, etc.) are charged to the patient account on an as needed basis. A single MORE Clinic staff member charges and collects the fee. Staff is not aware of when these charges are incurred; therefore it is not possible to anticipate these types of payments for monitoring purposes.

- MORE staff serving in a cashiering function have the ability to print activity reports. This allows the cashier to be aware of the computer system revenue receipt balance prior to its official closing, and could result in an individual making inappropriate adjustments to ensure actual cash on hand agrees. This weakens the reports usefulness as an internal control/reconciliation tool and increases the risk that funds could be diverted for personal use.
- While MORE Clinic procedures require that another staff member perform the daily closing activities with the cashier, no specific individuals are assigned these responsibilities. Any permanent employee may verify this information. This weakens accountability and could lead to inconsistencies in performing these duties.

#4 - Procedural Issues

Several procedural issues were noted. These may be impairing the effectiveness of the internal control structure. Examples of the problems are as follows.

- There were balances due for services rendered that are not being pursued.
 - The MORE Clinic accepts pregnant patients into the program from the Jefferson County Drug and Alcohol Abuse Center (JADAC), a specialty Clinic that treats chemically dependent people and their families. The MORE Clinic is required to accept these patients and fee payments are the responsibility of JADAC. However, the MORE Clinic has not charged for these services since it began accepting JADAC referrals in March 1999. Approximately \$3,000 is owed to MORE for these patients.
 - The annual participation fee was not applied to the patient account for one of the two applicable patients reviewed. There was no established system in place to assess this fee, rather staff was relied upon to assess the fee on the patients' anniversary date.
- The MORE Clinic performs urine drug screens for individuals assigned to Child Protective Services (CPS). These clients may volunteer or can be required by the court system to undergo drug screening. Specific documentation is required before testing should be initiated. MORE Clinic staff collect fees from these clients and issue handwritten receipts. There were several problems with the administration of CHP client activity.
 - CPS client activity is not recorded in the MORE Clinic computer system. All records are maintained manually, which weakens the internal control structure.
 - The MORE Clinic daily cash collection policies and procedures do not address the CHP activity (e.g., processing, cash handling, file management, etc.).
 - The receipt books used are not reconciled or monitored. Additionally, names of clients could not be determined without the presence of a receipt.
 - In one of two transactions examined, total daily Child Protective Services receipts did not match the amount noted on the monthly log sheet.
 - In the two client files reviewed, neither had a CPS Referral for Drug Screen present. This referral serves as permission/authorization to perform the drug screen.

- While an overall policies and procedures manual does exist, there are not any detailed desk procedures for staff performing assigned tasks for revenue activity. This may lead to inconsistencies in administration and management of activities.

Recommendations

Appropriate Health Department personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff review the information on a regular basis. This includes reconciliation of bank account activity, along with monitoring of internal records for completeness and adherence to requirements. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ Some level of oversight should be coordinated through the Health Department's Business Office. This includes obtaining an understanding of the MORE Clinic administrative practices and procedures. In addition to summary reports, access should be available so that supporting documentation can be reviewed as necessary. Patient confidentiality should be considered.
- ✓ MORE Clinic personnel should monitor daily activity reports to ensure patient revenues are being properly administered and reported. This should include reviewing daily activity reports for accuracy and completeness of fees received. Any exceptions should be thoroughly investigated and the resolution properly documented. This includes supervisory approval when necessary.
- ✓ Receipt books used to record payments should be reconciled and monitored on a regular basis. This includes ensuring that all receipt logs are accounted for (e.g., no gaps in sequential numbers for pre-numbered receipts), along with verification of receipts to the revenue records and, ultimately, to the bank statements.
- ✓ Staff should closely monitor the patient balances in accordance with the policies in the Patient Handbook, with oversight by the Supervisor.
- ✓ The new computer software should effectively eliminate many of the current system weaknesses. It should address the accuracy of the patient balances and charges to patient accounts. Adequate training is a key component for the success of any system.
- ✓ Computer system access should require that each user possess an individual password. All passwords should be kept confidential. Additionally, only authorized persons should have access to the cash system.
- ✓ To the extent possible, the same individuals should not have the ability to receive payments, post payments to patient accounts, and prepare the deposits. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring).

- ✓ Management should ensure that the necessary levels of background/credit checks are completed for all key employees. This could help identify lifestyle indicators that may have a negative impact in the workplace. This is a useful control to help verify and maintain the integrity of staff.
- ✓ Key personnel handling money should take mandatory vacations of at least one consecutive week. In addition to allowing staff members routine breaks from the work environment, this helps ensure the integrity of activity and is a recommended “best practice” for cashier functions.
- ✓ Written policies and procedures for the processing of revenue activity should be developed. These should supplement the Clinic policies and procedures and be distributed to all applicable personnel. This manual should include sufficient detail for the processing of clients, copies of forms used and policies followed in the process of releasing information. In addition, training of key personnel will help ensure consistent adherence to the requirements.
- ✓ The MORE Clinic staff should incorporate the administration of Child Protective Services client activity into their documented policies and procedures. The procedures should address the processing, cash handling, file management, etc.
- ✓ All billable activity should be pursued as appropriate. This includes amounts due from patients or other entities (e.g., JADAC, etc.). The MORE Clinic might consider contacting the Metro Health Business Office to aid in the billing of these patients.
- ✓ All forms used by the MORE Clinic should be reviewed and updated as necessary to reflect current operations. These forms should be reviewed on a regular basis.

Health Department Responses

The Health Department agrees with the recommendations and has implemented, or will implement them. Some may not be possible due to union contracts and other constraints. In those cases, other compensating actions will be implemented. The following responses are related to the audit recommendations.

- Bank statements have been and will continue to be reconciled to daily collection totals, in a timely basis, by Business Office staff.
- We will begin to reconcile daily collection reports to computer-generated reports of daily revenue.
- The staff at the clinic are now reconciling computer daily totals to cash taken in, with all differences reported to the supervisor.
- Business Office staff will work toward a better understanding of financial practices and procedures of the MORE Clinic. Daily logs from any computer system used will be requested to be turned into the Business Office on an as requested basis.
- After the fieldwork for this audit was completed, a new drug dispensing software was installed. The Clinic Supervisor is now monitoring daily reports. All exceptions are researched and reported to the site supervisor.

- The MORE Clinic uses a system-generated receipt. The system receipts, under the new system, are monitored daily, as explained above. A receipt book is used for some items not on the system, such as drug screens for CPS clients. The receipt book will be monitored by the Site Supervisor. We are investigating the possibility of putting the drug screens on the system, which would eliminate the receipt book. Also, the drug screen revenue has been deemed immaterial in amount and has not been a priority.
- There are no material patient balances. Most patients pay in full before treatment is rendered. The small balances are now approved and reviewed by the Site Supervisor. A listing of balances will be sent to the Business Office on a monthly basis.
- The new computer system has been installed. Training has been conducted and will continue to be conducted on an ongoing basis.
- Individual passwords have been assigned on the new system.
- Segregation of duties has been accomplished where feasible. An outside Counselor counts the deposit at the end of the day and the Site Supervisor reviews the process.
- All employees of Metro government go through a standard background check. We have checked with personnel as to inquire how police do background checks and will be determining if the added costs will be beneficial.
- There is no requirement of Metro Government on any employee to take a consecutive week of vacation. In addition, some of the people involved in the collection process are union employees. We agree this is probably a good practice, but, in reality, given the situation, not enforceable.
- Some policies and procedures with the new drug dispensing/computer system have been developed and will continually be written and revised.
- Updated policies and procedures are currently under development. These will include the administration of Child Protective Services client activity.
- One material client balance was not billed and it could be that regulatory requirements would prevent us from collecting or refusing service. The one material bill will be investigated as to its collectability.
- All forms will be reviewed by the Clinic Manager on at least an every six-month basis. Policies and procedures under development will incorporate most forms. As a form changes, the change will be reflected in the policies and procedures manuals.

The Health Department is committed to addressing the issues noted in the audit and to operating in an effective, accountable manner. Management plans to request a follow-up review after actions have been implemented.

Appendix A

MORE Clinic Fee Revenue - Calendar Year 2003

The MORE Clinic collected \$460,365 in patient fees during calendar year 2003. The following information was obtained from the monthly collection log sheets and is provided for information purposes only. The fee increased in July 2003.

